

Message Text

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ACTION ARA-14

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C O N F I D E N T I A L CARACAS 2493

E.O. 11652: GDS

TAGS: ENRG, EINV, VE

SUBJECT: OIL COMPANY PROBLEMS: COMMENTS BY PRESIDENT PEREZ

REF: (A) CARACAS 2456 (B) CARACAS 1020

BEGIN UNCLASSIFIED

1. IN THE COURSE OF HIS FOURTH ANNUAL "STATE OF THE NATION" ADDRESS TO THE CONGRESS MARCH 10, PRESIDENT PEREZ MADE TWO SIGNIFICANT REFERENCES TO THE MULTINATIONAL OIL COMPANIES. DISCUSSING THE CURRENT SHORTFALL IN VENEZUELA'S OIL PRODUCTION, WHICH HE INDICATED WOULD BE SLIGHTLY BELOW THE 2.2 MILLION BARREL PER DAY AVERAGE TARGETED FOR 1978, HE SAID THE COUNTRY WAS TAKING PRECAUTIONARY MEASURES TO STRENGTHEN ITS POSITION IN THE FACE OF MANIPULATIONS BY SOME OF THE TRANSNATIONAL COMPANIES WHICH MARKET VENEZUELAN OIL ABROAD. HE WNT ON TO SAY THAT THE GOVERNMENT WAS NOT IGNORANT OF THE MANUEVER BY WHICH (THE COMPANIES) USED THEIR LARGE INVENTORIES AND EXCESS OFFERS OF MIDDLE EAST OIL IN AN ATTEMPT TO BEND THE GOV'S DECISION TO MAINTAIN OPEC-AGREED PRICE LEVELS.

2. COMMENTING ON THE TECHNICAL SERVICE CONTRACTS WITH THE EX-CONCESSIONAIRES, PEREZ SAID THAT BASED ON ITS TWO YEARS
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OF EXPERIENCE SINCE NATIONALIZATION, PETROLEOS DE VENEZUELA WAS NOW ABLE TO REVISE THESE CONTRACTS IN CONNECTION WITH THE CONSOLIDATION OF THE INDUSTRY. AS A RESULT, SOME CLAUSES HAD BEEN IMPROVED IN THE CONTRACTS WITH EXXON, SHELL AND GULF, AND THEIR COST HAD BEEN REDUCED BY FIVE PERECENT. THE CONTRACTS WITH CHEVRON, TEXACO AND MOBIL HAD BEEN CANCELLED, WHILE THAT WITH PHILLIPS WAS BEING RENEGOTIATED TO TRANSFER

IT TO THE PETROCHEMICAL SECTOR. IN AN APPARENT REFERENCE TO THE ANNUAL FEES PAID UNDER THESE CONTRACTS, HE NOTED THAT THE NATIONALIZED OIL INDUSTRY WAS OBLIGED TO PAY THE TRANSNATIONAL COMPANIES 681 MILLION BOLIVARES (\$160 MILLION) FROM OIL EARNINGS. HE ADDED THAT A STUDY COMPARING THE COSTS OF SUCH TECHNOLOGY CONTRACTS AMONG THE OIL PRODUCERS WOULD BE READY THIS YEAR, AND THAT CONVERSATIONS ARE UNDERWAY WITH ENGLISH AND FRENCH COMPANIES WHICH MAY EVENTUALLY SUPPLY SUCH TECHNOLOGY. END UNCLASSIFIED.

3. BEGIN CONFIDENTIAL. COMMENT. PEREZ'S REFERENCES TO MANIPULATIONS AND MANUEVERS BY THE TRANSNATIONALS IN THE OFFTAKE OF OIL FOR EXPORT REFLECTS WHAT APPEARS TO BE A STRONG CONVICTION ON THE PART OF THE PRESIDENT AND OTHER GOV OFFICIALS THAT THE COMPANIES, PARTICULARLY EXXON, INVOKED THE CLAIM THAT VENEZUELAN OIL WAS OVERPRICED LARGELY AS AN EXCUSE TO CUTBACK LIFTINGS IN LATE 1977 AND EARLY 1978 AND THUS PUT PRESSURE ON THE GOV. IN THEIR VIEW, THIS "TACTIC" BY THE COMPANIES WAS ONLY THWARTED BY THE UNANTICIPATED HEAVY DEMAND IN THE US IN RECENT WEEKS. THIS VIEW IS WIDESPREAD AND MAY WELL CAUSE FUTURE PROBLEMS FOR THE COMPANIES INVOLVED; ONLY A FEW DAYS AGO, PETROLEOS DE VENEZUELA PRESIDENT GENERAL RAFAEL ALFONSO RAVARD, WHO IS GENERALLY SYMPATHETIC TO THE COMPANIES, TOLD THE AMBASSADOR HE THOUGHT EXXON'S CUTBACKS WERE NOT FULLY JUSTIFIED ON THE BASIS OF PRICE ALONE. IT SHOULD BE NOTED THAT WHILE THE MAJOR US COMPANIES (EXXON, GULF, AND CONFIDENTIAL

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TEXACO) REDUCED LIFTINGS AND THUS FORCED PRODUCTION CUTBACKS ON THEIR NATIONALIZED COUNTERPART OPERATING COMPANIES, ROYAL DUTCH SHELL APPARENTLY DID NOT REDUCE OFFTAKE FROM ITS NATIONAL COUNTERPART, MARAVEN, WHICH ACTUALLY WAS ABLE TO INCREASE PRODUCTION SLIGHTLY.

4. PRESIDENT PEREZ'S STATUS REPORT ON THE TECHNICAL SERVICE CONTRACTS APPEARS ACCURATE IN THE STRICT LEGAL SENSE, SINCE WE NOW UNDERSTAND THAT TEXACO'S ORIGINAL CONTRACT WAS LEGALLY CANCELLED AS OF THE END OF 1977 AND NOT EXTENDED AS ORIGINALLY REPORTED. (CARACAS 223 AND 1024) AT THE SAME TIME, HOWEVER, TEXACO AGREED TO PROVIDE SERVICES FOR AN ADDITIONAL THREE MONTHS UNDER TERMS SIMILAR TO THOSE IN ITS ORIGINAL CONTRACT, AND LIKE MOBIL AND CHEVRON, IS CONTINUING TO DISCUSS THE POSSIBILITY OF A NEW CONTRACT. THE REFERENCE TO POSSIBLE TECHNOLOGY FROM BRITISH AND FRENCH COMPANIES IS CONSISTENT WITH THE GOV'S EFFORTS TO DIVERSIFY SOURCES OF TECHNOLOGY FOR THE OIL INDUSTRY (CARACAS 1210).

5. THE PRESIDENT MADE NO REFERENCE IN HIS SPEECH TO THE ASSET DEDUCTION OR OTHER ISSUES PENDING WITH THE COMPANIES RELATING TO THEIR OPERATIONS PRIOR TO NATIONALIZATION.

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